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CONSTRUCTION MATERIALS PRICING & SUPPLY CHAIN ISSUES

AGC of Wisconsin Contractor Member Survey





OVERVIEW

Contractors in Wisconsin and across the nation are experiencing an unprecedented mix of steeply rising material prices and delays in the supply chain for products.

Steel, diesel fuel, lumber and pipe are just a few of the products that have skyrocketed since the start of the COVID pandemic in 2020 and continuing through the first quarter of 2021. There is no indication from suppliers that these excessive and unforeseen price increases and material shortages will lessen in the near future.

Many Wisconsin contractors and a large number of specialty subcontractors, who are bound by fixed-price construction contracts, will suffer substantial losses if they fulfill their contractual obligations. Contractors today have even considered surrendering their bid bond rather than placing their company in financial peril.

Project owners, private and public, need to recognize how much conditions have changed for projects begun or awarded in the early days of the pandemic or before and to consider providing greater flexibility and cost-sharing. Contractors should become even more vigilant about changes in material costs and expected delivery dates and should communicate the information promptly to current and prospective clients.

WHAT CONTRACTORS & OWNERS CAN DO

The Associated General Contractors (AGC) of America, in its 2021 Construction Inflation Alert, provides the following recommendations.

While contractors cannot get ports to accommodate shipping or Congress to rescind tariffs, contractors can provide project owners with timely and credible third-party information about changes in relevant material costs and supply-chain delays that may impact the cost and completion time for a project that is underway or for which a bid has already been submitted.

Owners can authorize appropriate adjustments to design, completion date, and payments to accommodate or work around these impediments. No one welcomes a higher bill, but the alternative of having a contractor stuck with impossible costs or timing is unlikely to be worse for many owners.

For projects that have not been awarded or started, owners should start with realistic expectations about current costs and the likelihood of increases. They should provide potential bidders with accurate and complete design information to enable bidders to prepare bids that minimize the likelihood of unpleasant surprises for either party.

Owners and bidders may want to consider price-adjustment clauses that would protect both parties from unanticipated swings in materials prices. Such contract terms can enable the contractor to build in a smaller contingency to its bid, while providing the owner an opportunity to share in any savings from downward price movements (which are likely at some point, particularly for long-duration projects). The Consensus Docs suite of contract documents (www.ConsensusDocs.org) is one source of industry-standard model language for such terms. The Consensus Docs 200.1 Materials Price Escalation Addendum offers the only standard contract document that addresses price escalation.

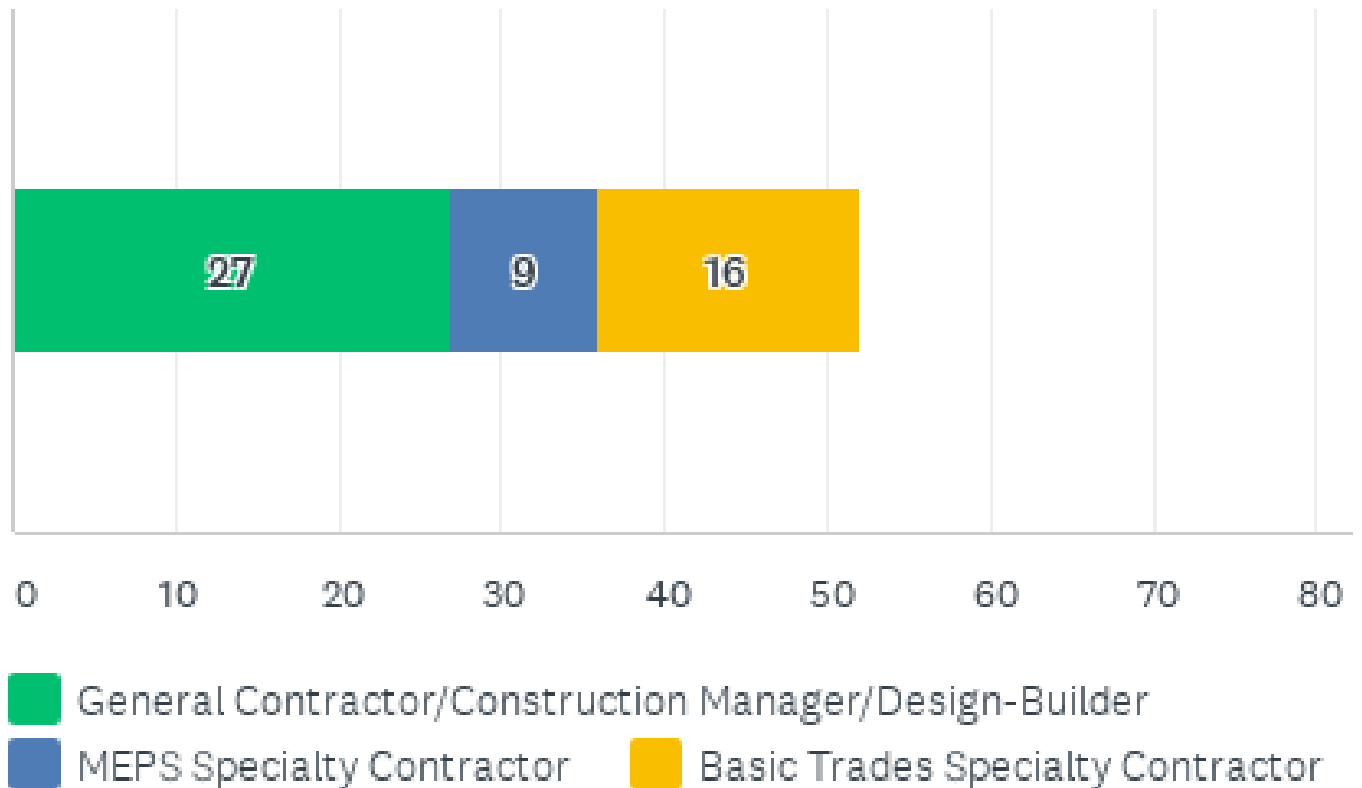
The parties may also want to discuss the best timing for ordering materials and components. Buying items earlier than usual can provide protection against cost increases but it comes with the need to pay sooner for the items and potentially paying for storage, security against theft and damage, and the possibility of design changes that make early purchase unwise.

SURVEY RESULTS

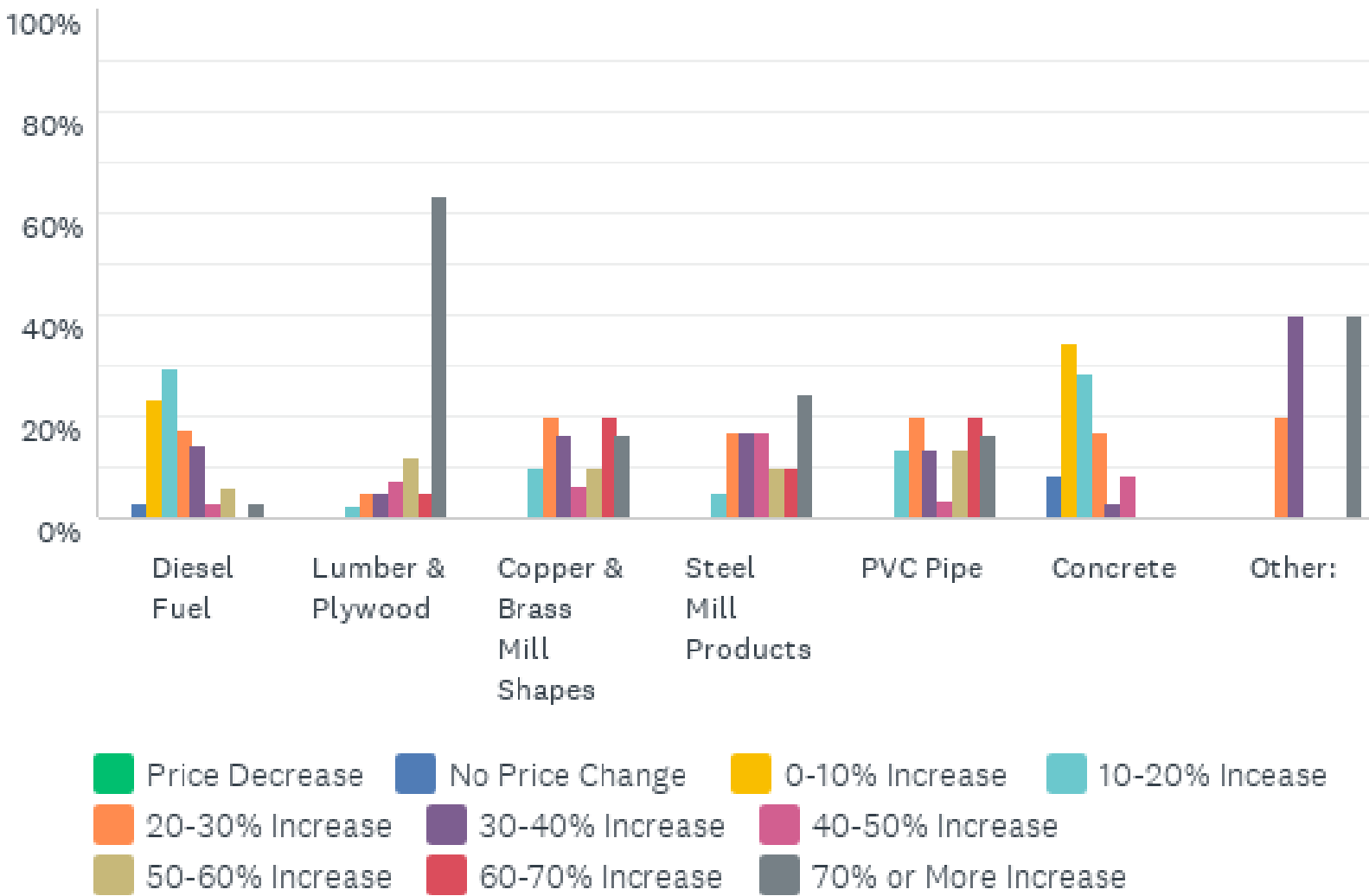
The following is a survey of AGC of Wisconsin contractor, subcontractor, supplier and design members. It is intended to provide all parties with better understanding of the current situation, the impact of construction firms and projects, and its likely course in the next several months. This document will be revised to keep it timely as conditions change.



WHAT TYPE OF CONTRACTOR IS YOUR FIRM?



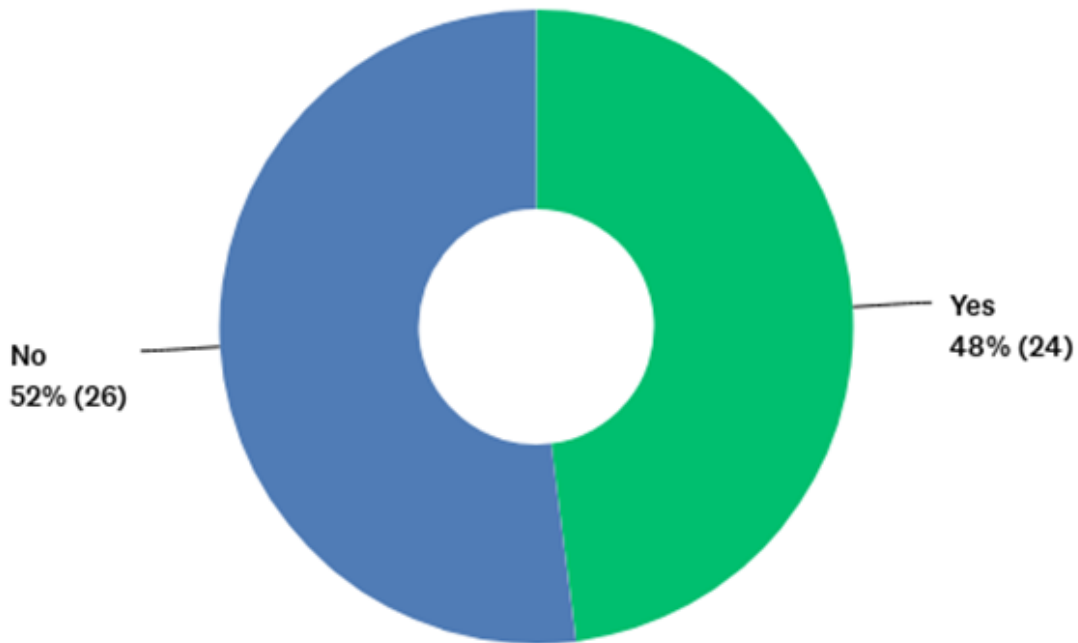
HOW MUCH HAS THE PRICE OF THE FOLLOWING MATERIALS CHANGED (INCREASED OR DECREASED) COMPARED TO THIS SAME TIME ONE (1) YEAR AGO?



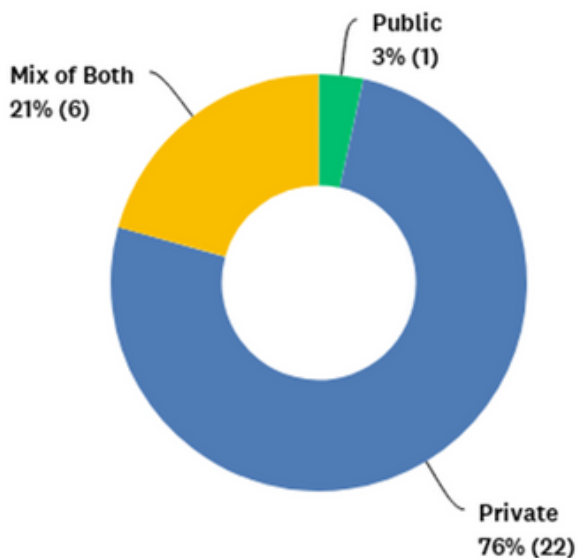
Notable Results:

- 63% of Contractors indicated an increase of 70% or more in Lumber & Plywood as compared to this same time one (1) year ago.
- 74% of Contractors indicated a price increase of 10% or more for Diesel Fuel from this same time one (1) year ago.
- 95% of Contractors indicated a price increase of 20% or more for Steel Mill Products as compared to prices from one (1) year ago.
- "Other" included 40% price increase in Waterproofing Materials and a more than 70% price increase in Copper Building Wire.

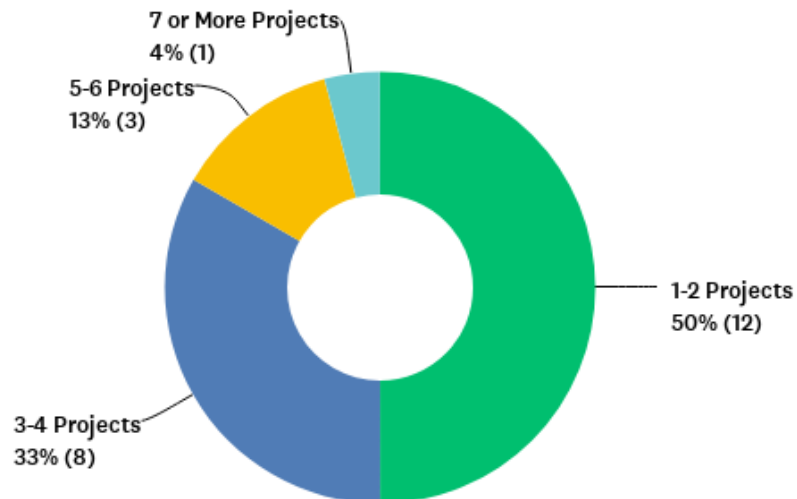
HAVE YOU HAD A PROJECT CANCELED DUE TO THE RISE IN PRICES OF CONSTRUCTION MATERIALS AND/OR SUPPLY CHAIN DISRUPTION?



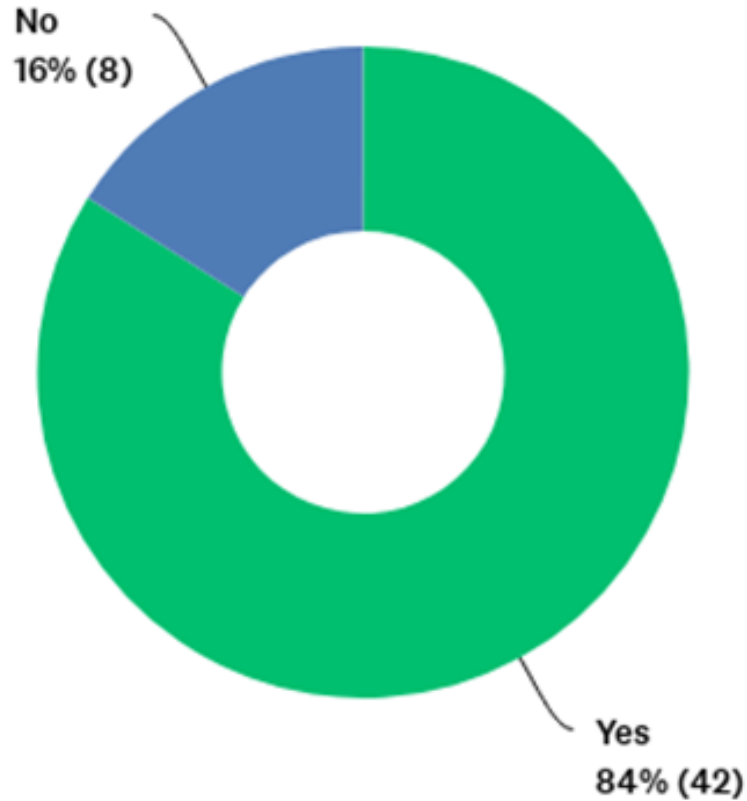
IF YES, WAS THE CANCELLATION FOR A PUBLIC OR PRIVATE PROJECT?



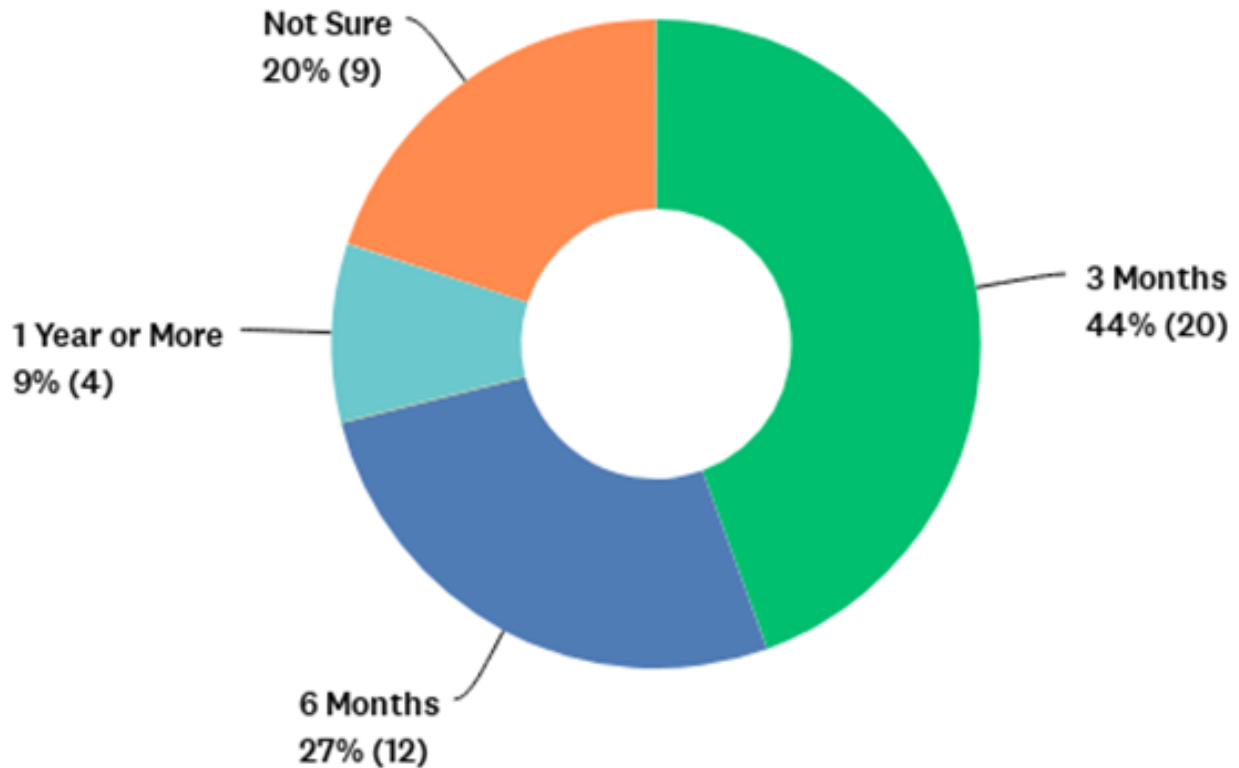
IF YES, APPROXIMATELY HOW MANY PROJECTS WERE CANCELED?



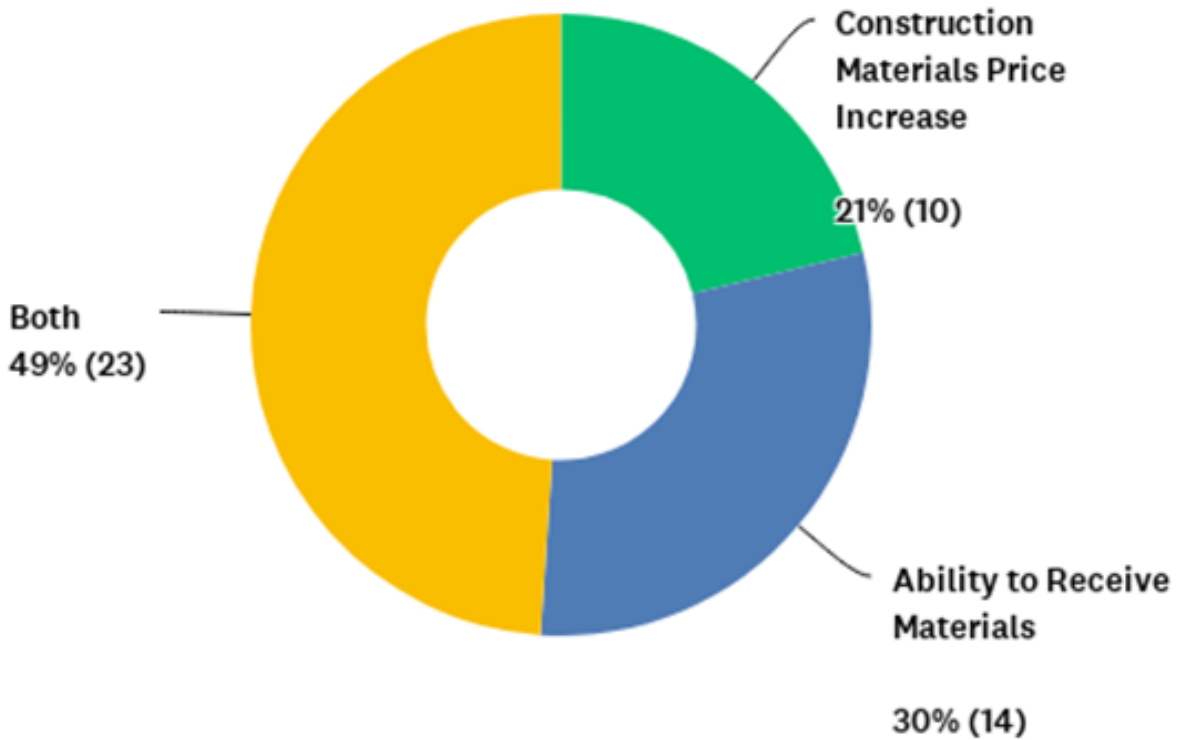
HAVE YOU HAD A DELAY IN A PROJECT DUE TO THE RISE IN PRICES OF CONSTRUCTION MATERIALS AND/OR SUPPLY CHAIN DISRUPTION?



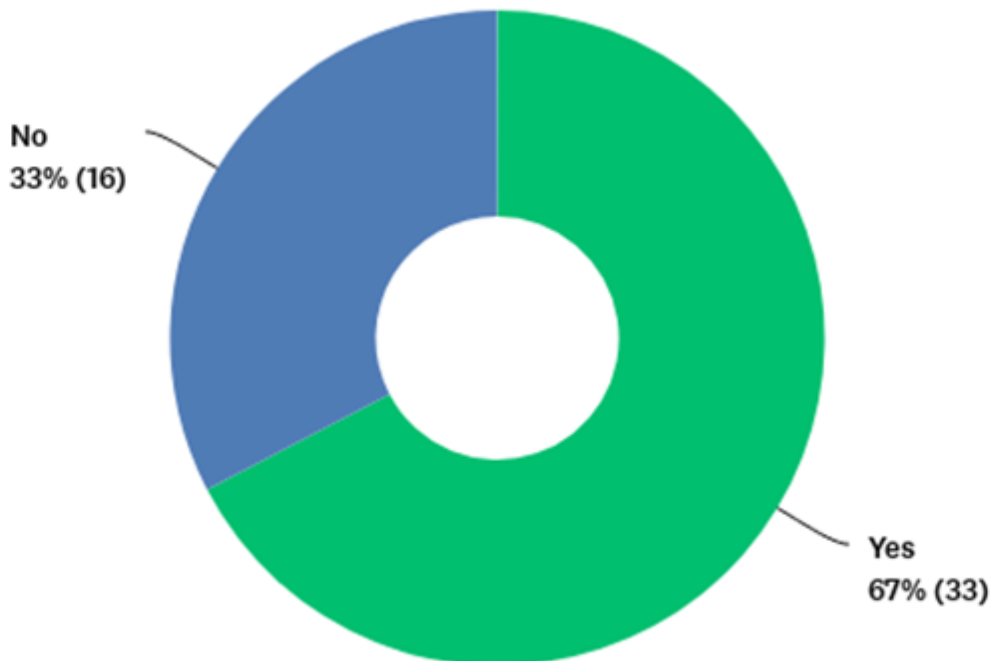
IF YES, WHAT IS THE LENGTH OF DELAY IN PROJECT?



IS THE ISSUE WITH CANCELLATION / DELAY IN PROJECTS DUE MORE TO CONSTRUCTION MATERIAL PRICE INCREASE OR ABILITY TO RECEIVE MATERIALS?

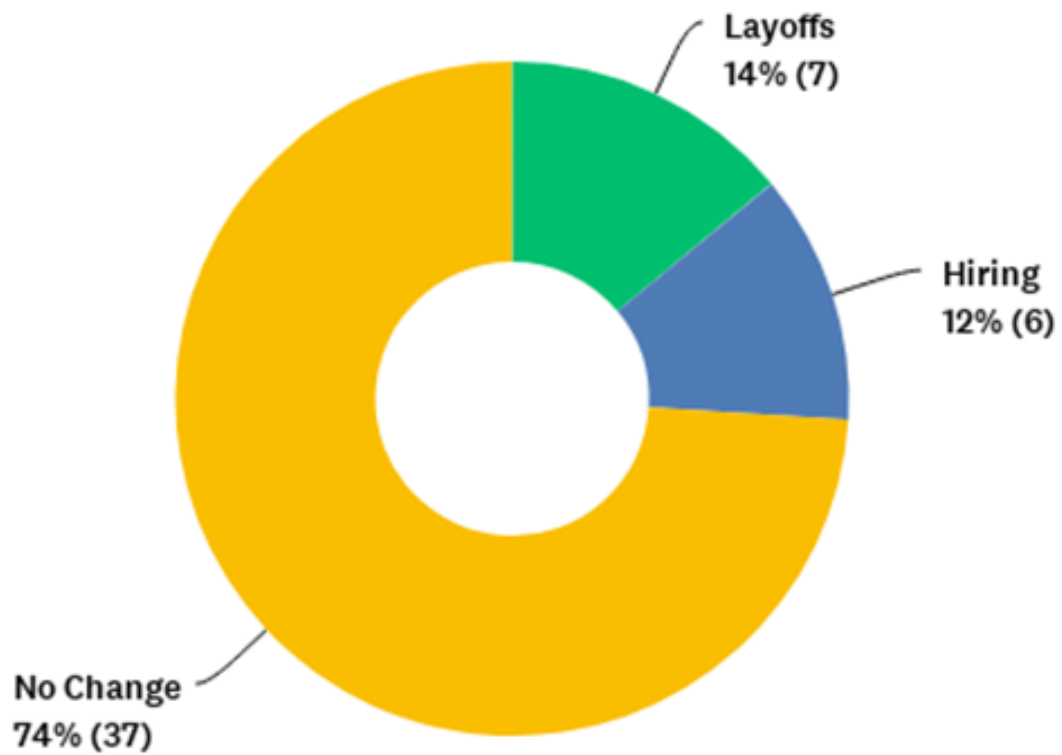


HAVE YOU HAD TO REDESIGN A PROJECT DUE TO RISE IN PRICES OF CONSTRUCTION MATERIALS AND/OR SUPPLY CHAIN ISSUES?





DO YOU SEE A CHANGE IN STAFFING IN YOUR COMPANY DUE TO THESE CHANGES?



CONCLUSIONS AND OBSERVATIONS

As with previous price increases, some contractors have been able to raise prices to cover the added costs. But current conditions in the industry, as well as the record from previous episodes of escalation materials costs, suggest that the mismatch between material costs and contractors' prices is likely to persist for an extended period.

What is clear is that no single or simple solution will resolve the situation, but there are steps that government officials, owners, and contractors can take to lessen the pain.

(The following is from AGC of America's 2021 Construction Inflation Alert.)

Federal trade policy officials can act immediately to end tariffs and quotas on imported products and materials. With many U.S. mills and factories already at capacity, bringing in more imports at competitive prices will cool the overheated price spiral and enable many users of products that are in short supply to avoid layoffs and shutdowns.

Officials at all levels of government should review all regulations, policies, and enforcement actions that may be unnecessarily driving up costs and slowing importation, domestic production, transport, and delivery of raw materials, components, and finished goods.

Owners need to recognize that significant adjustments are probably appropriate regarding the price or delivery date of projects that were awarded or commenced early in the pandemic or before, when conditions at suppliers were far different. For new and planned projects, owners should expect quite different pricing and may want to consider building in more flexibility regarding design, timing, or cost-sharing.

Contractors need, more than ever, to closely monitor costs and delivery schedules for materials and to communicate information with owners, both before submitting bids and throughout the construction process.

Materials prices do eventually reverse course. Owners and contractors alike will benefit when that happens. Until then, cooperation and communication can help reduce the damage.

OTHER OBSERVATIONS

Recommendations presented by contractors, subcontractors, suppliers and design firms include:

- Faster award of project
- More timely payment of estimates
- Extend contract time and eliminate liquidated damages when material is delayed
- Price adjustments when contractors can prove the increase between time of bid and delivery date
- Develop escalation clauses for various products
- Paying for stored material
- Allow for substitution when specified product not available
- Eliminate retainage when project is delayed
- Make sure owner has financing in hand before project is bid and make award days after bid